

NOTICE OF SPECIAL MEETING

TO THE MEMBERS OF THE CITY COUNCIL OF THE CITY OF AUSTIN:

Notice is hereby given that a Special Meeting of the City Council of the City of Austin will be held on the 10th day of January, 1955, at the Municipal Building, Eighth and Colorado, in Austin, Texas, at 10:00 A.M. for the purpose of resuming hearing on request for rate increase by Southwestern Bell Telephone Company.

(Sgd) C. A. McAden
Mayor
City of Austin, Texas

(Sgd) Elsie Woosley
City Clerk

ATTEST:

(Sgd) Elsie Woosley
City Clerk

CONSENT TO MEETING

We, the undersigned members of the City Council, hereby accept service of the foregoing notice, waiving any and all irregularities in such service and such notice, and consent and agree that said City Council shall meet at the time and place therein named, and for the purpose therein stated.

(Sgd) Ben White

(Sgd) Wesley Pearson

(Sgd) T. R. Thompson

(Sgd) Mrs. Stuart Long

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

January 10, 1955
10:00 A.M.

Council Chamber, City Hall

The meeting was called to order with Mayor McAden presiding.

Roll Call:

Present: Councilmen Long, Pearson, Thompson, White, Mayor McAden
Absent: None

Present also: W. E. Seaholm, City Manager; W. T. Williams, Jr., City Attorney; Wm. Hodge, Assistant City Attorney; Mr. Ed Gossett and other representatives from the Telephone Company.

The Mayor announced that this was a special meeting called for the purpose of resuming hearing on request for rate increase by Southwestern Bell Telephone Company.

MR. ED GOSSETT, representing Southwestern Bell Telephone Company, reviewed the request stating the Company was not making a fair return on the fair value of their property in the City, and showed what their revenues and expenses were, the value of their property and what they believed to be a fair rate on the value of their property. From an engineering approach, they believed the property was worth \$14,100,000; from an economy approach, \$14,138,873; Original Cost, \$13,015,584; Net Investment, when depreciation reserve deducted, \$10,841,569. \$10,558,950 assessed for taxes. He referred to a letter written by Mr. Owsley, dated October 10, 1952, in which he stated the rates as shown would not produce a 6% return on the city's rate base of \$9,124,308, as of December 31, 1951, and Mr. Gossett stated this was a bare-bone rate base. Mr. Gossett stated rates would be fixed for 1953 and for future years. He stated if a rate were fixed at 7 $\frac{1}{2}$ % for 54, it would not produce a 7 $\frac{1}{2}$ % return for 1955. He explained the attrition factor. There were 184 towns paying higher rates for one party lines than Austin; 157 towns paying higher rates for 2 party lines, and so on. In 1952, the Company had \$2,047,588 in telephone expansion in Austin; and in 1953, \$2,372,151--gross construction. Mr. Owsley set the rate base at \$9,124,308, and Mr. Gossett stated the rate base now would be \$14,000,000 and the rates would be made for the future; and that they would be far behind even if they got a fair rate on the fair value in 1953. He submitted a list of rates charged in other capitol cities, and this was discussed. Mr. Gossett stated the records were complete. The Mayor

announced that the hearing for rate increase was closed, and that the Council would deliberate on this and come to a decision sometime possibly within the next 30 days. The hearing was adjourned at 11:32 A.M.

APPROVED


Mayor

ATTEST:


City Clerk

Informal Meeting

2:00 P.M.
January 10, 1955

The Council met with its rate consultant, MR. HONAKER, who discussed his suggestions.

DETAILED DISCUSSION OF
SUGGESTIONS OF MR. HONAKER
ON TELEPHONE COMPANY REQUEST FOR
RATE INCREASE

MR. HONAKER listed the three major points in the recommendation: the rate of return, valuation, and separation. On the rate of return, the company thinks they want 7½%. In 1953, they earned around 6%; in 1952, they earned around 6%, within a .1 of 1%. In MOODY'S MANUAL OF PUBLIC ACCOUNTS, in the blue pages, there is a tabulation of rates of return allowed by commissions and courts throughout the United States since 1920. In recent years, the most commonly allowed rate of return for telephone companies has been 6%. There are some under 6%. That would let them earn \$10.66. That may not be enough per share, and it may have been approached from the low side. He did not believe that would be in line if it were below 6%.

Councilman Long inquired if since the Houston case had been settled, had he changed his mind, as at first he thought less than 6% would be an adequate rate. Mr. Honaker stated that was his view, that 5.75 is all that is required for the Austin system; however if you lend an ear to what other people say--there have been courts that do not favor a rate of return less than 6%. Councilman White asked Mr. Honaker what his personal feeling was; then it would be up to the Council. Mr. Honaker stated it was his feeling it looked like 5.75% for the system as a whole is enough, but some people do not agree, and the Courts do not like to go below 6%. He had to be influenced by what the Courts think, and that they were not very far apart. Councilman Long inquired about the rate of return 5.34% (Page 4, of City's Exhibit 4). Mr. Honaker explained this Exhibit, stating the Bell System had funds not invested in anything; and if they were taken, the 5.34 would result. On Page 3, he gave the figure of 5.81, which was his personal opinion as a technician; but giving other things credit and saying a larger amount, and looking at what the courts have said in recent cases, he stated the Council would want whatever it did to stand up in court, so it would have to be around 6%. He stated his recommendation was 5.81, but this was pretty close.

Councilman Thompson asked about the reconciliation of the value of property taxed in the City at ten million and interpolated in terms--75% of 85%, arriving at a 14 million value. The City Manager stated taking the tax value, and taking the ratio of what is called market value, that would make the 100% market value 16½ million, and that includes the toll. He explained the ratio of 72.9% as to local; and the Telephone Company showed 76%, leaving 24% of the value for toll--taking 24% of that, then there would be 12.5 or 12.6 on the value of the tax base as to what the local system would be worth on that premise. Mr. Honaker explained that some of the properties, 100% toll, would not appear on their exhibits at all, but would be assessed for tax purposes. Councilman Thompson asked if there would be a way to make a computation on how much property the Tax Department found they had in this town; that it was brought out

73% was devoted to local and some 20% to toll. Mr. Honaker stated there was some property in the city still not reported, but subject to taxation, and there would be no way of his ascertaining the amount or value of it. He thought 5.81 was right, but he thought the Courts would favor 6%. Councilman Thompson asked if when the Council considered this, it would have to consider the possibility of going to Court. He stated that somewhere between the original cost and the present day value would be the right figure to use as a rate base--it could be somewhere between 10 and 14 million. The City Attorney stated there was no testimony in the hearing about the tax value, and that the Telephone Company had always taken the view that the two were entirely unrelated; that tax values and values for rate making purposes were not related; that they had worked on the tax values, and the Tax Department had not imposed on them a value higher than they were willing to take.

Detailed discussion of entering new testimony in court cases was held.

Councilman Pearson asked if Mr. Honaker's experience was that unless a rate is fixed around 6%, if the matter were taken to Court, the company would win? Mr. Honaker stated it was difficult to get something under 6%. To be on the safe side, the rate base ought to be something more than the bare original cost, as values had increased--land, buildings, etc. To put it on a reproductive cost basis, they would not build it like it is now.

Back to the tax proposition, the City Manager had figured this, stating using the company's 76%, and Mr. Honaker stating there were some in that were not in the exhibits; but taking a ratio that they have shown, figured \$12,530,000. Taking Mr. Honaker's 73%, it would be 12 million. Mr. Honaker stated some body might think it ought to be 6% on 12 million; that in order to give them 6% on 12 million, using the separation, they could be allowed increases on their miscellaneous charges and PBX and hotel rates, and increase the one-party business phone from \$10.50 to \$12.00, and leave everything else as it is. They were asking for \$15.00. This would not change any rates except miscellaneous rates--no residential rate would be changed. The hotels might not like it--the only person hit would be the one-party business user, and they could take that on deduction on his income tax. Councilman Pearson inquired as to the amount of revenue that would give. Mr. Honaker figured \$99,000 additional. Here Mr. Honaker went over page 2, Exhibit 2, Separation Exhibit. Under Exchange Amount - \$3,980,551; would increase the revenue a little over 5%. Would hit one-party business lines and miscellaneous charges. Councilman White asked then if the business man would be the boy to pay the bill. Mr. Honaker figured a 5.3% increase overall--business men paying most of it, with a lot of people not paying any of it unless they had their phones removed or installed, and he did not believe the city could be beat on that. He was inclined to believe the Company would accept that. Councilmen Pearson and Long reviewed the RATES - STATE CAPITOLS - AUSTIN AREA submitted by Mr. Gossett.

The Mayor asked Mr. Honaker if he felt they would accept this. Mr. Honaker stated he thought so. Discussion followed. Councilman Long wanted to study the figures further. Mr. Honaker suggested asking the company where they would prefer that the rates be charged to give them a certain income, say from \$100,000 to \$210,000. Councilman Thompson felt that the Austin citizens did not want to pay less but did not want to pay more....

The Mayor stated the Council would take the matter under advisement.

The Council reviewed MR. HONAKER'S report on the Southern Union Gas Company with respect to industrial rates.

There being no further business the Council adjourned subject to the call of the Mayor.

APPROVED

CA McEady
Mayor

ATTEST:

Elaine Thosley
City Clerk